RAJYA SABHA

Tuesday, the 22nd March, 2005/1 Chaitra, 1927 (Saka)

The House met at eleven of the clock,

MR. CHAIRMAN in the Chair.

ORAL ANSWERS TO QUESTIONS

Excise Duty On Medicines

*281. DR. (SHRIMATI) NAJMA A. HEPTULLA: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that Government have decided to impose excise duty on medicines on maximum retail price instead of the price at which consumers buy medicines;

(b) whether it is also a fact that duty has been hiked to 35 per cent to make it further difficult for the daily users to buy medicines;

(c) what is the reason behind this sudden hike and how many medicines have been covered/spared by this hike; and

(d) the details thereof?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) to (d) A Statement is laid on the Table of the House.

Statement

(a) With effect from 8.1.2005, the Government has prescribed levy of central excise duty on allopathic drugs on the basis of retail price, required to be declared under the Drugs (Prices Control) Order, 1995.

(b) There has been no increase in the rate of excise duty on drugs and it continues to remain at 16 per cent *ad-valorem*.

(c) and (d) The Government has prescribed levy of central excise duty on the basis of retail price to ensure certainty in assessment and avoid

valuation disputes for all allopathic medicines. Ayurvedic, Homoeopathic, Siddha, Unani and Biochemic drugs are outside the purview of retail price based levy.

DR. (SHRIMATI) NAJMA A. HEPTULLA: Hon. Chairman, Sir, already, the country is having a discussion about the patents. The Bill is going to come before this House and there would be a discusion on the rise in the prices of drugs, owing to a change from process patent to the product patent. I am sure the hon. Minister of Finance is aware of the steep price-rise which has taken place. Is the Government aware that the small scale units account for nearly half of the drug production in the country? This measure is going to hit the companies which have invested a lot of money with compliance to stringent manufacturing norms, and forces them to move out from Maharashtra, Delhi, Punjab, Haryana and West Bengal which are going to be very badly affected by it. And they will have to go to States like Himachal Pradesh, Uttaranchal Pradesh, Jammu and Kashmir which have got tax exemptions.

SHRI P. CHIDAMBARAM: Sir, the hon. Member has raised several issues which are quite disparate issues. Now, what has been provided to Himachal Pradesh and Uttaranchal Pradesh are some tax exemptions, and this, the hon. Member will recall, was provided by the previous Government. Therefore, in respect of those tax exemptions, I can do nothing except that we have put a sunset clause from the 31st of March, 2007. As a result of that, it is possible that there is some diversion of industries from one State to another, but that is a direct consequence of the area-based exemptions provided by the previous Government.

As far as what we have done is concerned, we have moved to a system of levying excise duty on the MRP (the maximum retail price). Now, this is a well-accepted method. It is a non-discriminatory method and it leaves a little discretion on the officers so that it is transparent, neat and easily enforceable.

Sir, we do not think that moving to a levy of excise duty on the MRP-based method will result in rise in prices. In fact, if you look at the wholesale price index for the group, drugs and medicines, on the 1st of January, 2005, the index was 272.7, and after the change was made on the 8th of January, 2005, the figure which I have for 26th February, 2005, is only 272.5. In fact, there is no rise in the wholesale price index for the commodity

group, drugs and medicines. In fact, a number of items have been moved to MRP, and wherever MRP is required to be displayed by one or other law, I think, the non-discriminatory and transparent method of levying excise duty is based on MRP with a suitable abatement. There was a representation that the abatement level of 35 per cent is inadequate. We had determined 35 per cent as the abatement level after taking into account the recommendations of the Ministry of Chemicals and Fertilisers, of the NPPA. After considering the recommendations, although 35 per cent abatement was an appropriate abatement figure, in order to help the small scale sector, we have increased the abatement level to 40 per cent.

DR. (SHRIMATI) NAJMA A. HEPTULLA: Sir, I would like to bring to the notice of the hon. Minister a report which appeared in **The Financial Express** on March 16 and another report which appeared in **The Economic Times** of yesterday which said that the small manufacturers were opposed to it, especially, in Delhi. There is also another news item which appeared at the time of the Budget and the heading says, "Post Budget Pill — drug may become costlier by 2-6 per cent". I understand what the Minister has said about transparency. But instead of changing the excise duty from there to the maximum retail price, why don't the Government find a way of controlling the drug prices? You know the drug prices have increased in reality. I am talking about the retail prices.

SHRI P. CHIDAMBARAM: Sir, the drug price control is a matter governed by the Drug Prices Control Order and that Order is administered by the Ministry of Chemicals and Fertilizers. So, on drug price control, the question must be put to my colleague.

DR. (SHRIMATI) NAJMA A. HEPTULLA: Sir, we put the question to the Government and it is the Government's total, combined responsibility. Unfortunately, neither the Health Minister nor the Minister of Chemicals and Fertilizers is there. My question is being addressed to the Finance Minister. I want your protection. *(Interruptions)...*

SHRI P. CHIDAMBARAM: Sir, this coming from a former Deputy Chairman is an unusual comment. Questions are put to separate Ministries. Now, drug price control is a matter which is dealt with by the Ministry of Chemicals and Fertilizers. If the hon. Member puts the question to that Minister, I am sure, he will answer why and under what circumstances the Drug Prices Control Order is being implemented.

SHRI MANOJ BHATTACHARYA: Sir, my question to the hon. Finance Minister is, whether he is aware that the small manufacturers maintain a higher MRP to ensure a margin to the dealers or the middlemen so that they can survive in the competition from big multinationals and big corporate houses. When the excise duty is put on the MRP—I heard the hon. Minister very carefully—there is an administrative advantage. But while taking the administrative advantage, the prices of medicines will go up. That is one. Secondly, the small manufacturers will be put into severe trouble, so far as marketing is concerned. I would like to know whether the Minister is aware of this and whether the Minister is going to look into the situation.

SHRI P. CHIDAMBARAM: Sir, I am aware of this argument. I am aware of the argument put forth by the small scale manufacturers. But let us look at the facts and I had some examples. Take, for example, a product called Cloner-Z 0.5. The MRP was Rs. 148. It remains the same. The price offered for assessment under excise duty is Rs. 13.91. Can it be anybody's case that the clearance value under section 4 of the Excise Act of the drug is Rs. 13.91 for the MRP to be fixed at Rs. 148? Can it be anybody's case that 91 per cent represents post-manufacturing costs? I can give you any number of examples. The assessable value is being kept at a very low value and as a result of which there is hardly any excise revenue. Therefore, whenever there is an MRP, we take into account all post-manufacturing costs, including retailers' margin and wholesalers' margin, and arrive at the abatement. We have not done this in an arbitrary fashion. We have asked the NPPA to do a study. The study has been done. The study reports that 35 per cent abatement will take care of the post-manufacturing costs. But when representations came, in order to be a little more generous to them, to give a little more allowance to them, we have increased the abatement from 35 per cent to 40 per cent. I can give you examples of any number of drugs. Take, for example, a drug called Bikenrik Pharma. Now, the MRP is Rs. 210. The assessable value has been given as Rs. 24.

SHRI MANOJ BHATTACHARYA: You say the generic names so that I can understand what the target is.

SHRI P. CHIDAMBARAM: I don't have it. I have the name of the manufacturer. I have the name of the drug. The point I am making is that there is an MRP at which the consumer price is fixed. There is a value

which they offer for excise purposes. Now, they must bear some relation. Now, we think that 60 per cent of MRP is a proper assessable value. If you offer only 10 per cent of MRP as an assessable value, how does the Excise Department accept that? Can 90 per cent ever be the post-manufacturing cost? Therefore, we have done this study. We have consulted the Ministry of Chemicals and Fertilisers, which is the Administrative Ministry. We have asked for a study to be done by the NPPA. I have got the figures of the price builp-up on many, many products. And, we think that 40 per cent is a generous abatement from MRP.

SHRIMATI S.G. INDIRA: Sir, I would like to know from the hon. Minister whether there is complete or partial exemption for pharma industries in some of the areas. If such an exemption on excise duty does exist, then, the benefit would go to the consumers and the workers working in these industries.

SHRI P. CHIDAMBARAM: That is correct. Area-based exemptions have been given to the North-East, Jammu and Kashmir, and now, of course, a few years ago, to Himachal Pradesh and Uttaranchal. As a result of these area-based exemptions, industries located in these areas would get tax concessions, which are not available to industries located in other areas. So, the producer there does get a benefit. But whether that benefit is passed on to the consumer is very difficult to say. Sometimes these benefits are not passed on to the consumers.

Streamlining of procedure in respect of education loans

*282. SHRI N.R. GOVINDRAJAR: Will the Minister of FINANCE be pleased to state:

(a) the details of the education loan provided by various public sector banks in Tamil Nadu;

(b) whether getting education loan from banks is very difficult whereas it is regularly announced that the procedure of loan has been simplified;

(c) if so, the details thereof; and

(d) the steps being taken to streamline this system so that better service can be provided to the student community by the banks?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) to (d) A Statement is placed on the Table of the House.